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GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

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Taxation of Services under the Two - Penny Plan

Governor Granholm has proposed a two percent tax on certain services as part of her comprehensive budget and economic plan for the 2007 and 2008 fiscal years. Under this proposal certain services would be taxed and others would not.

Included here is a description of those services that would be taxable and the number of other states that tax them; a description of those services that that would be *exempt* under the proposal; and a description of those *purchasers* that would be *exempt regardless of the service*.

The final list describes transactions sometimes considered services that are currently and would continue to be taxed under the 6 percent use tax, and would *not* be subject to the 2 percent tax.

It is important to note that other states that tax these services usually tax them at their sales tax rates, which typically range between 5 and 7%.

Services that are Taxed

Service	Number of States that Tax
Transportation	
Intrastate transportation of persons(non governmental)	12
Taxi operations	9
Intrastate courier	7
Limousine service	15
Storage	
Household, mini storage and cold storage	14
Automotive storage	20
Food storage	10
Fur storage	17
Marina service (docking , storage, cleaning and repair)	19
Packing and crating	11
Finance , Insurance and Real Estate	
Insurance services (excluding premiums)	7
Investment counseling	7
Real estate or personal property sales fees	6
Real estate management fees	6
Real estate title and abstract services	6

Service	Number of States that Tax
Personal Services	
Barber shops and beauty parlors	8
Pet grooming	19
Carpet and upholstery cleaning	19
Dating services	9
Debt counseling	8
Diaper service	24
Income from funeral services	15
Garment services (altering & repairing)	20
Gift and package wrapping service	22
Health clubs, tanning parlors, reducing salons	22
Laundry and dry cleaning services, coin-op	7
Laundry and dry cleaning services, non-coin op	24
Landscape services	21
Massage services	11
900 number services	29
Shoe repair	21
Swimming pool cleaning & maintenance	18
Tax return preparation	7
Business Services	
Advertising agency fees, excluding the medium	11
Armored car services	16
Bail bond fees	5
Debt collection	9
Credit information, credit bureaus	13
Employment agencies	11
Interior design and decorating	10
Maintenance and janitorial services	20
Lobbying and consulting	8
Marketing	7
Packing and crating	10
Exterminating	21
Private Investigation	15
Process server fees	7
Public relations, management consulting	8
Secretarial and court reporting services	9
Security services	17
Telemarketing services on contract	7
Telephone answering service	20
Temporary help agencies (fee net of wages paid by client)	12
Test laboratories (excluding medical)	9
Tire recapping and repairing	29
Travel agent fees	4
Window cleaning	19

Service	Number of States that Tax
Automotive	
Automotive washing and waxing.	22
Automotive road service and towing services	19
Auto service. except repairs, incl. painting & lube	25
Parking lots & garages	21
Automotive rust proofing & undercoating.	27
Amusements	
Pari-mutuel racing events.	29
Amusement park admission & rides	38
Billiard parlors	28
Bowling alleys	28
Cable TV services	26
Direct satellite TV	23
Circuses and fairs -- admission and games	35
Coin operated video games	19
Membership fees in private clubs.	24
Admission to cultural events or films where theater rental of the film is not taxed	34
Pinball and other mechanical amusements	20
Admission to professional sports events	38
Professional Services	
Accounting and bookkeeping	6
Architecture	6
Legal services	6
Engineering (other than research engineering)	6
Land surveying	8
Veterinary services	6
Construction	
General construction services	13
Carpentry, painting, plumbing and similar service	14
Grading and excavating	12
Water well drilling	11
Repair and Fabrication	
Custom fabrication labor	39
Repair labor, generally	25
Labor charges on repair of aircraft	20
Labor charges - repairs to interstate vessels	13
Labor charges - repairs to intrastate vessels	20
Labor - repairs to commercial fishing vessels	16
Labor charges on repairs to railroad rolling stock	12
Labor charges on repairs to motor vehicles	23
Labor on radio/TV repairs; other electronic equip.	25
Labor charges - repairs other tangible property	25
Labor - repairs or remodeling of real property	15
Labor charges on repairs delivered under warranty	8

Service	Number of States that Tax
Optional service contracts sold at the time of sale	30
Installation charges by persons selling property	24
Installation charges - other than seller of goods	19
Custom processing (on customer's property)	27
Custom meat slaughtering, cutting and wrapping	13
Welding labor (fabrication and repair)	32

Services that are Exempt

Health Care

- Services of physicians
- Services of dentists
- Services of other health practitioners including chiropractors; optometrists; mental health practitioners; physical, occupational and speech therapists and audiologists; and podiatrists
- Outpatient care centers including family planning centers
- Outpatient mental health and substance abuse centers
- Other outpatient centers including HMO medical centers, kidney dialysis centers, and surgical and emergency centers
- Medical and diagnostic laboratories
- Home health care services
- Ambulance services
- Other ambulatory health care including blood and organ banks
- Hospitals including medical and surgical hospitals; psychiatric and substance abuse hospitals; and specialty hospitals
- Nursing care facilities
- Residential mental retardation, mental health, and substance abuse facilities
- Community care facilities for the elderly including homes for the elderly and other residential care facilities

Social Assistance

- Individual and family services including child and youth services, and services for the elderly and persons with disabilities
- Community food services
- Community housing services including temporary shelters, transitional housing to low-income individuals and families, volunteer construction or repair of low-cost housing, and repair of homes for the elderly or disabled
- Emergency and other relief services
- Vocational rehabilitation services including job counseling, job training, and training and employment to persons with disabilities
- Child day care services

Other Exempt Services

- Educational services, including personal lessons
- Services performed or provided by a nonprofit school or nonprofit educational institution to students grade 12 or below
- Services performed or provided by a church, hospital, parent cooperative preschool, or nonprofit organization (exempt under sections 501(c)(3) or 501(c)(4) of the Internal Revenue Code), up to a total amount of \$5,000 in a calendar year

- Wired telecommunications services
- Wireless telecommunications services
- Accommodations and rental housing
- Water and sewer systems
- Air transportation
- Water transportation of freight and passengers, except scenic transportation
- Pipeline transportation
- Publishing and broadcasting, except cable television and satellite television subscriptions, an exemption that would include the purchase of advertising media such as television or radio time, print or billboards.
- Motion pictures, except for admissions to motion picture or video exhibitions
- Sound recording
- Internet service providers, Web search portals, data processing services, and other information services – Includes access to the Internet; Internet search facilities; transforming, preparing, or placing data for dissemination on the Internet for others. Also includes the use of shared computer resources, news syndicates, libraries, and archives.
- Services provided as part of a live entertainment event such as the services provided by promoters; agents and managers; and independent artists, writers, and performers
- Admissions to museums, historical sites, parks, and zoos
- Gambling industry services
- Leasing real property, including residential buildings and dwellings, non-residential buildings, and other real property
- Rail and truck transport
- Religious, grant making, and civic services, including religious organizations; grant making foundations and charitable trusts; social advocacy organizations; civic and social organizations; and business, professional, labor, and political organizations
- Computer systems design includes writing, modifying, testing, and supporting software to meet the needs of a particular customer; planning and designing computer systems that integrate computer hardware, software, and communication technologies; and on-site management and operation of clients' computer systems and/or data processing facilities
- Scientific research and development including conducting original investigation undertaken on a systematic basis to gain new knowledge (research) and/or the application of research findings or other scientific knowledge for the creation of new or significantly improved products or processes (experimental development). This includes research in the physical, engineering, life, and social sciences and the humanities.
- Finance and insurance services including most activities of banks and credit unions; most activities of nonbank credit institutions (mortgage lenders and credit card companies); securities and commodity brokerage and management; and activities of pension funds, health and welfare funds, insurance funds, and investment pools. The following finance and insurance services are not exempt and would be subject to tax: i) insurance agency and brokerage services; ii) claims adjusting services; iii) third-party insurance administration services; and iv) investment advice.

Purchasers for whom the Provision of a Service is NOT Taxed

- Farmers as part of the farming operation
- Manufacturers for direct use in manufacturing
- Governmental entities including the American Red Cross

- Intermediaries who purchase a service for a third party and the third party is the ultimate consumer of the service (resale of the same service)
- Regularly organized church or house of worship, excluding a service consumed as part of a commercial enterprise
- Extractors for direct use in an extractive operation
- Nonprofit school, nonprofit hospital, nonprofit home for children or aged persons operated by a governmental entity, religious, or fraternal organization, veterans' organization, or corporation, if the operation benefits the public at large
- Nonprofit organizations exempt under sections 501(c)(3) and 501(c)(4) of the Internal Revenue Code, to the extent the service allows the organization to carry out its purpose

Transactions Currently Taxed under the 6% Use Tax and not Subject to the 2 Percent Tax

- Typesetting; plate making
- Intrastate telephone and telegraph (business and residential)
- Interstate telephone and telegraph, based on origin and billing address (business and residential)
- Cellular phone (business and individual)
- Natural gas for business use
- Other fuel (including heating oil) for business use
- Electricity
- Natural gas for residential use (4 % rate)
- Other fuel, including heating oil for residential use (4% rate)
- Tuxedo rental
- Water softening
- Commercial art and graphic design
- Commercial linen supply
- Photocopying
- Photo finishing
- Printing
- Sign construction and installation
- Software- packaged or canned program
- Material for custom software programs
- Video rental
- Short term property rental (such as carpet cleaners or lawn equipment)
- Rental of bulldozers and other heavy equipment
- Short term auto rental
- Long term auto leasing
- Aircraft rental to individual pilots both short and long term.
- Hotel and motel for less than 30 consecutive days
- Repair material
- Taxidermy